# Statement on the Economic Outlook and the Financial Position of the Government of Canada



Presented by
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Canada

Madam Speaker,

My purpose this afternoon is threefold. First, I want to report on Canada's economic performance this year and on our prospects for 1983. Second, I wish to inform Parliament and the people of Canada of the fundamental principles that will govern my actions as Minister of Finance. Third, I will indicate some additional and immediate actions the government is proposing to ease further the hardship inflicted on Canadians by the recession, speed economic recovery, and enable Canada to take full advantage of the development opportunities that will materialize as the world economy recovers.

Last week the Prime Minister reviewed with the people of Canada the extraordinarily difficult situation in which we find ourselves. He did not promise a quick and easy solution because none exists. But he charted the course we must follow to restore our country's capacity to survive economically, in a world where the survival of the fittest has become a rule of life.

The world-wide recession has cut our economy to the bone. We have lost half a million jobs during the past year. Almost a million and a half among us are looking for work. Many others have temporarily given up the search for gainful employment. Virtually no Canadian has been untouched by the recession. In every region of the country, those who have been spared the worst have relatives, friends or neighbours who are struggling to cope with hardship and insecurity - be they unemployed textile workers in Québec, grounded fishermen in the Atlantic, idle lumbermen in B.C., laid-off miners or auto workers in Ontario.

Throughout the country, in union halls and boardrooms, in factories, shops and offices, Canadians are struggling to protect their livelihood, to preserve the basic comforts of their families, and to keep alive their hopes for a better future. All too few will have any respite from this struggle during this coming winter.

But Canadians also know that recovery is possible and that the next few months will be decisive ones in our effort to turn the economy around. They know that adversity has caused us to set aside our differences and to approach the management of our economy with a growing sense of realism and national purpose, and a renewed spirit of cooperation.

The people of this country recognize that the recession is a global problem. They are all too aware that Canada, as a major trading nation, has been hit more heavily than many other countries. But

people also know that we are not simply drifting on the tide of world events. They are also aware that we can mobilize our energies to make Canada a tougher, more resilient country, that we can emerge from the recession in a position to compete, prosper and fully develop our considerable economic potential.

We have made remarkable progress since last June in implementing the 6 and 5 program introduced by my predecessor, the Secretary of State for External Affairs, to break inflation and lay a solid foundation for a durable recovery. The response of provincial governments and the private sector to federal leadership in this regard has been effective and broadly based. Inflation, interest rates and mortgage rates are coming down. We are facing a hard winter, but our prospects are by no means as bleak as they were at the beginning of the summer.

Canadians were given last week by the Prime Minister the strongest assurance that the Government of Canada will not kick the social props from under them, and abandon them to struggle alone. This government will not tighten the screws on the economy, cut billions from government spending, or seek to eradicate inflation by brute force. This government will continue to act decisively to ensure that the strong and the more affluent among us help the weak and the more vulnerable through these difficult times. As my predecessor said last June,

> "Solidarity and sharing built Canada. That sharing is what the unemployed, the many firms in trouble, and the thousands threatened by layoffs now need. I count on the willingness of all Canadians to bear their share of the collective effort to bring down inflation."

I subscribe without reservation to this basic principle of Liberal government. That is why I am proposing today the reallocation of over a billion dollars from existing spending programs to finance a new employment program, provide more stimulus for the housing industry, and speed up the expansion and modernization of rail capacity in the West. That is why I am announcing arrangements designed to relieve the workers and employers of this country from the full burden of mounting unemployment insurance costs. And that is why I am proposing to Parliament a series of tax adjustments to ease the financial and administrative burden on individuals and businesses.

I have been Minister of Finance for 48 days now. I have received ten times that many suggestions and proposals. I want to reflect on these and to pursue a good many of them in further consultations. There may be some who believe that an immediate budget is imperative, who would indeed demand a new budget every three months if the last one has not resolved all of our economic ills. But in all of the consultations I have had, no one has urged me to bring in an immediate budget, and some have advised that I wait until spring. I

will not be rushed into action simply for the sake of appearing to act. Many urgent bills from previous budgets are still before the House and must be dealt with. To be sure, other critical issues need to be addressed and decided upon. But I intend to arrive at decisions that are sensible, constructive and durable, and I will take the time that is required to do so.

## BASIC PRINCIPLES OF ECONOMIC MANAGEMENT

Since my appointment to this portfolio I have had extensive consultations with business, labour, co-operatives, women's groups, economists, professionals, provincial ministers and many others. I am grateful for their views. I have also received helpful advice from Members of Parliament from all parties. I wish to express my particular appreciation for the work of the House Committee that has examined the detailed Ways and Means motions resulting from the last two budgets.

These consultations have been most valuable and I intend to pursue them in a spirit of openness, candor and cooperation. Over the next few months, as I work towards my budget, I will be seeking advice on how we can build on the 6 and 5 program to develop a full-fledged strategy for national recovery. Throughout this process -- indeed, throughout my tenure as Minister of Finance -- I will be guided by the following principles:

First, we must continue to practise fiscal responsibility. We must persist in restraining government spending. We must strive to contain the rise of the deficit even while the recession cuts into government revenues and raises public expenditures. This means that we must rigorously review our priorities to ensure that existing programs continue to serve valid objectives. It also means that we must not hesitate to trim existing programs to fund new initiatives.

Second, we must not abandon the victims of the recession in the mistaken belief that such callous action might speed our recovery. This government has worked consistently over several decades to develop a social security system that effectively supports Canadians in need of help. We will not put the axe to that system at the very time when Canadians need it most. More constructively, we will continue to look for ways to improve our social programs and to make them more effective for those who need help.

Third, we must continue to rely primarily on the dynamism and creativity of the private sector as the engine of growth in Canada. The government will be seeking areas where it can act in close cooperation with business and labour to improve the financial health of the private sector as well as its ability to expand and prosper. I intend to foster the certainty and stability that are basic preconditions for a favourable economic climate.

Fourth, we must remain outward-looking as a nation and recognize that our future well-being depends critically on order and stability in international economic arrangements. The depressed level of economic activity throughout the world has increased the risk of financial disorder and growing reliance on protectionist measures. It has also dealt a heavy blow to the aspirations of developing countries. Not only must we not turn inwards ourselves, but we must use our counsel and influence in world affairs to assist in the process of repair.

Fifth, we must continue to develop effective mechanisms for consultation so that the broadest range of organizations and institutions, as well as provincial governments, may participate in the continuing revision and improvement of our economic policies. We have made significant progress in this direction over the past year, but it is imperative that we persist in our efforts. It is my fervent hope that we will find ways to involve labour organizations more productively in this process of consultation.

In this connection, it is my intention to appoint a panel of economic advisers made up of outstanding Canadian economists to advise me on the broad and complex range of economic policy issues that we must face as a nation. I will announce the membership and terms of reference of this panel in the next few days.

Sixth, and most importantly, we must build on the spirit of the 6 and 5 program to devise and implement an effective strategy for national recovery and economic development. As the Prime Minister emphasized last week, 6 and 5 is not an end but a beginning. It is not a solution to all our problems, but a standard, a goal that we can all accept and, by doing so, make it possible to find together workable solutions to the many other challenges we face.

We all know what these are. Our productivity performance continues to lag. New production techniques must be developed and implemented. This requires development of our technological base, increased investment, and new and innovative approaches to organizing work and labour-management relations.

Infrastructure development is required across the country. Our railway system, in particular, desperately needs to be upgraded. There is little point in cutting our production costs and increasing our productivity if we cannot deliver our goods to the markets where they are sought.

We have an abundance of resources that need to be developed. Markets for our energy may not be very buoyant today. But the lead times for development are long, our energy will be needed in the 1980s and 1990s, and planning ahead can give us an important advantage in an increasingly energy-reliant world. Likewise, our forests need replenishing and our fisheries careful husbanding if we are to sustain our resource base over the longer run.

These are some of the things we need to do. There are many others. We must undertake them together, as Canadians, if we are to succeed. Just as governments cannot break inflation by themselves, so they cannot bring about economic recovery by themselves. But just as the public and the private sectors are now implementing jointly a national program to break inflation, so we can join together to strengthen our economic system, sustain our recovery and enhance our future growth prospects. And just as the government has shown its willingness to lead in the fight against inflation, so it is prepared to lead wherever necessary and to cooperate with business, labour and the provinces to promote economic growth.

## THE ECONOMIC AND FINANCIAL OUTLOOK

The recession has been deeper and longer lasting in Canada than the government anticipated when the June budget was presented. We are going through the most severe period of economic turmoil since the 1930s. The publication of the National Accounts in late August confirmed that the gross national product (GNP) declined by 2.1 per cent in the second quarter of this year, bringing it 6.2 per cent below the level it had reached in the second quarter of 1981. Subsequent monthly information suggests that the economy continued to be weak through the third quarter and may have declined by a further 1 per cent, although national accounts data will not be available for several weeks.

Nevertheless, there are signs that economic recovery will begin in the current quarter. Inflation is abating. This has accelerated since the introduction of the 6 and 5 program. On a year-over-year basis, the consumer price index (CPI) increased by 10.4 per cent in September compared to 11.2 per cent in June and 12.5 per cent on average in 1981. And over the three months ending in September, the average monthly increase, seasonally adjusted, was under six-tenths of one per cent. This contrasts with an average monthly increase of nine tenths of one per cent in the first six months of 1982.

The moderation in inflation we have had, together with prospects of continuing improvement, has made it possible for Canadian interest rates to decline as U.S. interest rates have fallen. The Bank Rate has come down for 10 consecutive weeks. It is now more than 5 percentage points lower than it was at the end of June, and almost 10 percentage points lower than the peak level reached in August of 1981. Other interest rates have followed the Bank Rate down. Mortgage rates have also fallen by 5 percentage points since the end of June. What this means is that the monthly payment on a $50,000 mortgage amortized over 25 years, to take one example, has declined by $200 during the same period. These lower interest rates are easing the difficulties faced by businesses and helping to stimulate economic recovery.

For 1982 as a whole, real gross national product is now expected to fall by 4.4 per cent and the unemployment rate to average about 10.9 per cent. Given the high rates of inflation recorded in the

first half of the year, the consumer price index (CPI) for the whole of 1982 will likely rise by about 10.9 per cent. Nevertheless, the trend is clearly downward, and I expect inflation to be running at less than 10 per cent by early next year.

Looking forward to 1983, the recovery should gradually gather momentum. Real growth of about 3 per cent may be expected next year. Broad adherence to the 6 and 5 program should bring the increase in the CPI down to an average of about 7.5 per cent in 1983 and to about 6 per cent by year end. Our trade balance with other countries, which has already attained record highs this year, should be even stronger in 1983. Continued strength in our trade position, together with the prospect of continuing decline in U.S. interest rates, will make possible further lowering of interest rates in Canada as our inflation gains are consolidated.

The area of greatest concern in 1983 will be the labour market. I expect employment growth to resume soon. The number of Canadians at work should increase by 2.5 to 3 per cent from the fourth quarter of 1982 to the fourth quarter of 1983. However, as economic and employment growth resume, many people who have temporarily left the labour force over the past year will once again begin to look for work. As a result, the labour force will also grow strongly through 1983, and the unemployment rate will decline only gradually. Unemployment is expected to decline, reaching a level slightly above 11 per cent of the labour force by the end of the year; but for 1983 as a whole, the unemployment rate will likely be slightly above 12 per cent.

The unemployment outlook therefore remains distressing and demands continuing efforts to improve employment prospects and help those most in need. That is why I am announcing today a number of measures that go beyond the additional $1.4 billion the government has already allocated for these purposes over the past year.

I now report to the House on the government's fiscal position for the past and the current fiscal year. The Public Accounts for fiscal year 1981-82 have just been tabled. I am tabling with this statement the standard summary statement of transactions for fiscal years 1981-82 and 1982-83.

Financial requirements excluding foreign exchange transactions were $8.3 billion in 1981-82, virtually identical to the estimate made at the time of the June budget. This is almost $2 billion lower than in 1980-81. The budgetary deficit in 1981-82 was $13.6 billion, about $1 billion higher than in the previous fiscal year. Total outlays were $68.9 billion, up 17.6 per cent from 1980-81. The major factor accounting for this large increase was interest on the public debt, which grew by 42 per cent. Outlays other than public debt charges were $53.7 billion, reflecting an increase of 12.2 per cent over the previous fiscal year. Budgetary revenues stood at $54.1 billion, 19.1 per cent higher than in 1980-81.

In 1975, the government pledged to hold federal spending to the trend rate of growth of GNP. From 1975-76, the fiscal year in which this commitment was made, to 1980-81, total outlays declined from 22.9 per cent of GNP to 20.1 per cent of GNP. The Public Accounts show that total outlays in 1981-82 increased slightly as a share of GNP to 20.8 per cent. But I emphasize that this increase was more than totally accounted for by an extraordinary and unavoidable increase in interest charges. Exclusive of interest charges, total outlays on government programs have fallen continuously from 20.5 per cent of GNP in 1975-76 to 16.4 per cent of GNP in 1980-81 and, further, to 16.2 per cent of GNP in 1981-82. Those who assert that federal expenditures are "out of control" should check the record of the past seven years.

My predecessor reported in June that the fiscal position of the government in 1982-83 had deteriorated significantly from what was anticipated in November of 1981, essentially because of the onslaught of the recession. I must report today that further weakening of the economy in the intervening months has aggravated this deterioration. The budgetary deficit was then projected to be \$19.6 billion. I am now estimating it at \$23.6 billion. About 70 per cent of this slide is directly attributable to the impact of the recession on anticipated revenues.

Total outlays are now expected to be almost \$80 billion, about \$1.1 billion higher than projected in June. Interest charges are now forecast to be more than \$900 million lower than in June. This has been more than offset, however, by major increases in the costs of statutory programs, such as the government share of unemployment insurance, the Canada Assistance Program, Equalization, and Railway Act payments, which are related in substantial part to the depressed levels of economic activity. The net increases in statutory program costs total some \$1.5 billion.

We have also faced increases in costs due to other government undertakings. These include the just announced decision to provide \$400 million to strengthen the equity bases of Canadair and de Havilland and an increase in payments to Via Rail. In many cases such increases also reflect the state of the economy and the desire to minimize further adjustments which are imposed on labour and other markets under current conditions. In planning its expenditures, the government does, of course, provide reserves which, in more normal times, should be adequate to cover such contingencies. However, they have been substantially exceeded this year. The new outlays projection does contain an allowance against further possible upward revisions in existing program costs.

Outlays as a share of GNP will rise this year, reflecting both the low rate of GNP growth and the pressures of the weak economy on government expenditures. This is primarily a cyclical phenomenon, however, and the government remains committed to containing spending growth to rates below the trend rate of GNP growth over the medium term.

While outlays have increased by slightly more than $1 billion since June, revenue estimates have fallen by almost $3 billion. This is almost entirely due to the weakness of the economy, and reflects the operation of "automatic stabilizers". Our tax and expenditure systems have been deliberately designed so that spending for major social programs rises more rapidly and government revenue more slowly when the economy falters. This is precisely what is now happening. Indeed, total budget revenues are expected this year to grow by less than 3 per cent. The net effect of these adjustments is to support economic activity in times of recession.

The government's financial requirements, which were estimated in June to be $17.1 billion, are now expected to be closer to $22.2 billion. Some $4 billion of the increase is attributable to the increase in the budgetary deficit, the reasons for which I have just spelled out. Most of the remainder -- about $700 million -- is due to increases in the deficit in the Unemployment Insurance Account, partly in response to much higher than anticipated unemployment rates, and partly as a result of the government's decision on unemployment insurance premiums for 1983 to which I will return in a few moments.

Personal savings are at an historically high level and private borrowings have been very weak through the first half of the fiscal year. Consequently I do not anticipate problems in meeting the government's borrowing requirements. Moreover the government is of the view that in current circumstances the federal deficit provides appropriate support to economic activity and individual Canadians suffering from the recession.

As you know, Madam Speaker, the government is presently seeking a $4 billion increase in its borrowing authority under the provisions of Standing Order 72A. I have outlined the factors leading to this request. I have also made it clear by the estimates I have presented that further borrowing authority will be required before the end of this fiscal year. In the budget I intend to present early in 1983, I will review again the fiscal situation for the current fiscal year, set out estimates for 1983-84 and future fiscal years, and then seek additional borrowing authority as required.

## ACTIONS TO RELIEVE HARDSHIP AND SPEED RECOVERY

I now turn to the additional actions the Government is proposing to protect Canadians from the worst effects of recession, enhance our prospects for recovery, and position ourselves to take advantage of future growth opportunities. The fiscal position I have just described clearly shows that the government's room to manoeuvre is very limited. While I am prepared to accept the larger deficits resulting from our weak economic performance, the principle of fiscal responsibility prevents consideration of massive new spending programs.

Some have argued that the measures introduced to bring down inflation have extracted a heavy toll from Canadians. However, it is now recognized by virtually every responsible government in the world, whatever may be its political stripe or ideological bent, that failure to check inflation and the pernicious expectations to which it gives rise would leave national economies in an even more devastated state.

To change course now would be foolish and irresponsible. It would break the trust we have sought to build with Canadians. It would perpetuate the cynicism that inflation breeds. The people of Canada would feel betrayed because their government, when it came to the crunch, lacked the resolve to persevere. I am confident that Canadians will continue to support and adhere to the government's 6 and 5 program, and that we will move into the 6 per cent world by the end of next year. I am determined to avoid any initiative that might compromise this achievement. The additional measures I am announcing today to meet pressing needs will accordingly be financed by spending reallocations.

## Employment Support

To help those Canadians who have been directly hit by the recession, the government is introducing a New Employment Expansion and Development Program.

The June budget recognized the need to take action to reduce unemployment and provide support to those hardest hit by the recession. My predecessor announced measures to expand employment programs, stimulate housing and other employment-intensive construction, and promote economic development. More than $1.4 billion is allocated for these purposes in the current fiscal year.

These programs are now in place and, along with unemployment insurance and other employment initiatives, provide an important line of defence against the hardship of unemployment. Through the Canada Community Development and special youth programs, close to $300 million dollars will be spent for job creation programs this winter, providing employment for over 60,000 Canadians. Most hirings will occur during November, December, January and February. These jobs will be targetted as much as possible on our most vulnerable communities.

However, it has become apparent since last June that additional help is required for those who face severe financial difficulty because of prolonged unemployment. The duration and depth of the recession have led to a significant increase in the number of people who will no longer have access to unemployment insurance benefits. Lacking employment and other sources of income, many people will be forced to seek social assistance, often for the first time in their lives. We

cannot, as a nation, ignore their plight. It is to help these people that the New Employment Expansion and Development Program is being put in place.

Through this program, the government will draw upon the abilities of all employers in Canada whether they be in the public, non-profit or private sectors, to generate employment. We face a national problem requiring a national solution. The federal government cannot solve it alone. By working together, we can find productive and socially useful jobs for those who are in greatest need of gainful employment.

The federal government is prepared to contribute $500 million to this new program. It is expected to provide jobs for 60,000 individuals over a period of 18 months. I am calling upon provincial governments to facilitate its implementation. I am also inviting them, wherever possible, to supplement the federal contribution. Joint action can bring about a significant reduction in the number of people who would otherwise be forced to seek social assistance. My colleague, the Minister of Employment and Immigration, will contact his provincial counterparts in the next few days. He will announce shortly the details of the new program.

Housing Assistance

Because of the importance of the construction industry in stimulating economic activity, I am announcing that an additional $150 million is being allocated to two existing housing programs: the Canadian Home Renovation Plan and the Canadian Homeownership Stimulation Plan.

Under the Canadian Home Renovation Plan, eligible homeowners can receive a grant equivalent to a third of their costs for home repairs up to a maximum grant of $3,000. The program has been very successful, and the $65 million allocated to date has been almost completely committed. I am announcing a further allocation of $50 million to the program. This will provide about 13,000 additional jobs.

The Canadian Homeownership Stimulation Plan introduced in the June Budget provides relief from high interest rates to prospective home buyers. Grants of $3,000 are available to all purchasers of new houses on which construction started before December 31, 1982, and to first-time buyers of an existing house before that date. The program has been very well received and close to 65,000 grant applications have already been approved. Seven provinces have home ownership assistance programs that complement the federal plan.

Since June, mortgage interest rates have fallen considerably and home buyers are under less pressure. In addition, housing prices have come down. Statistics Canada's New House Price Index showed a year-over-year decline of 3 per cent in September. But the construction industry has still not recovered from its slump and this continues to be a matter of concern to the government.

I am therefore announcing that the $3,000 Home Ownership Stimulation Grant will be extended to the end of April 1983, at a maximum cost of $100 million, with one important modification. Starting on January 1, 1983, assistance will be extended to purchasers of new housing only, to generate the maximum amount of activity and employment.

## Western Rail Expansion

To better position Canada to benefit from world recovery, the government is earmarking an additional amount of up to $400 million to speed up the expansion and modernization of rail capacity in the West, and to facilitate an early, fair and balanced resolution of the Crow Rate issue. The commitment of these funds will be contingent upon detailed proposals recommended by the Minister of Transport.

The government is determined to implement swiftly its comprehensive approach to expand the western rail transportation system and modernize the freight rate regime for grain. Early action will ensure that the railways will be in a position to increase rail capacity as required to move the substantially higher volumes of export commodities projected from the middle of the decade onward. This expansion is critical to Canada's economic development in the 1980s. It will pave the way for the exploitation of additional coal, potash and sulphur resources as well as increased exports of grain. The overall plan will also stimulate western agricultural development and facilitate economic diversification.

Railway investments amounting to some $11.8 billion in 1982 dollars are planned over the period to 1991 and will generate substantial economic activity, not only in the West but in virtually every region of the country. In addition to major construction activity and sourcing of materials in the western provinces, the railways' requirements for steel rail, locomotives, rolling stock and electronic equipment will provide major stimulus over the period to the manufacturing sector, particularly in central and eastern Canada. As a result of the direct railway expenditures, it is estimated that some 400,000 jobs will ultimately be generated.

But to get the full benefits from the plan and to speed national recovery it is imperative that we get an early start. The government will therefore seek firm and specific undertakings from the railways to commit funds for the expansion and modernization of their facilities in the West. If I receive assurance from the Minister of Transport that these undertakings are satisfactory, I will be prepared to extend the special additional capital cost allowances on railway track and other rail assets provided under the Income Tax Act beyond December 31.

## Expenditure Reallocations

These new measures are being financed by reallocations of existing expenditures amounting to $1.1 billion. Consequently, they will not add to the deficit over the current and coming two fiscal years. I am pleased to confirm that this has been achieved without weakening in any way the social security system that is currently sheltering millions of Canadians from the full brunt of the recession.

From now through 1984-85 some $660 million will be freed up in the energy area by scaling back funds allocated to a number of programs. The existing allocations for the Petroleum Incentives Program will nevertheless be maintained.

Outlays in the areas of Defence and Official Development Assistance will be reduced by $230 million and $245 million respectively from the dollar levels previously allocated. These reductions, which have been made possible by lower rates of inflation and GNP growth, will take place without prejudice to our ability to maintain our commitment to 3 per cent real annual growth in defence expenditures, or to achieve our aid commitment level of 0.5 per cent of GNP by 1985-86. They will, however, require some adjustments in the nature of the programs we had planned to undertake.

Not only is the government freeing up funds for immediate new initiatives, but it is seeking to ensure that it will have the capacity to respond to contingencies likely to arise. Some reductions in other programs are therefore being made to provide for such contingencies and contribute to the financing of the new initiatives I have just announced.

This reallocation exercise has been very difficult. One billion dollars may not seem like much in the context of total outlays of $80 billion. But roughly 75 per cent of total government outlays is made up of transfers to persons, provinces and other countries, grants or capital assistance to industry, subsidies, loans and interest on the public debt. Of the 25 per cent or $20 billion remaining, which accounts for the operating expenditures of the federal government inclusive of defence, some $11 billion is made up of wages, salaries and other personnel costs, which have already been restrained by the 6 and 5 program.

It has not been easy to make deep cuts in government spending without hurting some group of Canadians already reeling from the impact of recession. But the government, having urged Canadians to restrain their incomes, had no choice but to revise and pare down federal expenditures. The President of the Treasury Board has introduced over the past few months stringent restrictions on spending in the public service. The government has asked him to look again at departmental expenditures to ensure that no fat is left in the system and, even beyond this, that outlays are being pared down to the lowest level compatible with maintenance of adequate service to the public. He will soon report to the House.

Easing the Burden of Unemployment Insurance on the Private Sector

Madam Speaker, I am also announcing today the government's decision to set employee and employer unemployment insurance premium rates for 1983 at levels significantly lower than would be required to prevent the deficit of the Unemployment Insurance Account from rising further next year. In effect, the government will limit the increase in premiums to about half what would be required to balance the operations of the Account in 1983.

In so doing, the government is accepting the recommendation of the Canada Employment and Immigration Commission, which includes representation from both business and labour, and a similar recommendation made by the Economic Council of Canada. Effective January 1, 1983, premium rates will be set at $2.30 per $100 of insurable earnings for employees, and at $3.22 for employers.

Unemployment Insurance is the first line of defence of Canadians against temporary loss of income resulting from unemployment. Honourable Members are well aware that over the past year it has been drawn upon more heavily and extensively than ever before to meet the objectives for which it was designed.

The program is financed through premiums paid by workers and their employers, and through contributions from the federal government. Over the years, premiums have moved up and down in response to general economic conditions and the consequential demands made on the Unemployment Insurance Account. Premiums were in fact reduced last year from the 1980 level of $1.80 for employees to $1.65 per $100 of insurable earnings -- the same premium level as in 1976.

Unfortunately, we now face a very different situation. The severity of the recession has resulted in a very high number of claims on the Unemployment Insurance Account. It is estimated that by the end of 1983, in the absence of any increase in premium rates, the cumulative deficit could rise to more than $6.5 billion. Some increase in premium rates is therefore unavoidable. However, balancing the Account at this time would have imposed an intolerable burden on the private sector, requiring an employee premium rate as high as $3.75 in 1983.

To have raised premiums to such levels would have amounted to a massive tax increase on Canadian workers and businesses, an increase that would have jeopardized economic recovery. At the same time, keeping rates at their current levels could have added more than $3 billion to the government's cash requirements in 1983. It would also have required even higher rates in the future since the deficit of the Account would continue to mount.

The Minister of Employment and Immigration and I have both consulted with business and labour as to the fairest way to resolve this dilemma. There is a strong desire on the part of the private sector

not to tamper with the basic insurance principle of the program. The government supports this principle. Yet a strong case can be made for sharing more widely the burden of unemployment insurance in current circumstances, thereby enhancing the stabilizing properties of the program and demonstrating the willingness of Canadians to help those among us who are most in need.

Setting premium rates at the levels I have just indicated will require the government to advance more than $1 billion to the Unemployment Insurance Account in 1983, over and beyond its normal contribution. The government's borrowing requirements will increase by an equivalent amount.

The government's decision will lead to an increase in the cumulative deficit in the Account in 1983 -- a matter of serious concern to all of us. Over the coming months, my colleagues and I will continue to assess closely the extent of the deficit and its implications, and to pursue the matter in further consultations with business, labour and other interested parties.

## Easing the Financial and Administrative Burden of Taxation

Madam Speaker, taxation policy has been hotly debated over the past year. Our tax system must balance the need for fairness, the need for incentives, the need to avoid distorting private sector decisions, and the need to raise revenues. Many commentators have emphasized the importance of tax simplicity. I agree. However, some degree of complexity is unavoidable if the tax rules are to reflect the real and very complex world in which we live, and if tax incentives are to apply only to those for whom they are intended.

The government has welcomed consultations and constructive suggestions on tax policy. A Committee of this House has examined the tax proposals from the November 1981 budget. Several groups of outside tax experts and private sector representatives have been appointed to examine important tax proposals. I have held many consultations on taxation issues since becoming Minister of Finance and I plan to continue this process.

I have a number of announcements to make concerning certain measures from the November budget. Many of these respond to representations made by individuals and associations either directly to me or my predecessor, or before the House Committee.

In reviewing these representations I have been guided by three considerations.

First, it is important to ensure that incentives extended to some taxpayers are fair, that they do not unnecessarily distort economic activity, or result in higher tax rates for others.

Second, I do not believe that the Government can continually pile incentive upon incentive without looking at the revenue loss involved, the overall government deficit, and the capacity of the country to afford these incentives. The November changes were in the right direction and I am not prepared to abandon that approach, as some have suggested.

Third, since last November the Canadian economy has been hard hit by the world recession and, for this reason, some adjustments in the government's tax proposals are warranted. Now is the time to remove uncertainty, to end the debate over the merits of this or that proposal, to reduce tax complexity, and to move on to the many pressing economic problems that confront us.

Working Canadians are faced with uncertainty in employment and restraint in their living standards. The government is asking them to share with other Canadians the burden of mounting unemployment insurance costs. I am therefore making two tax adjustments that will directly benefit working Canadians.

I will not proceed with the proposal to tax the health and dental plan benefits of employees. While this proposal would have improved the fairness of our tax system, now is not the time to introduce it. I expect that this adjustment will reduce the administrative burden on employers.

I am also responding positively to the numerous representations the government has received on the taxation of housing and travel benefits extended to employees in northern Canada and other isolated locations. Such benefits are now tax exempt but the exemption expires at the end of this year. To continue to exempt all benefits would be unfair to other northern residents who do not receive such benefits, and to Canadians living in other parts of the country, who have to bear their full housing and travel costs out of after-tax income. An unlimited exemption would also encourage those affected to substitute tax-free benefits for taxable wages beyond what is reasonable.

However, there is a need for special rules for the valuation of housing and travel benefits that take into account the special circumstances of employees in these locations. Furthermore, I have concluded that, because of the very severe impact of the recession on communities in northern Canada, it would be inappropriate to begin subjecting such benefits to tax at the present time. I also recognize that northern employees and employers are being asked to adhere to the 6 and 5 program, and I do not want to impair their ability to do so.

Accordingly, I am extending today the current exemption of benefits by one year, to the end of 1983. I am also proposing a modified tax regime for benefits that will be phased in gradually, beginning in taxation year 1984 and ending in 1987. Full details will be provided in a document I will release shortly.

Madame Speaker, Canadian businesses are presently confronted with very serious financial problems. Profits are at very low levels and must be restored if investment and economic activity are to pick up again. The decline in interest rates that has occurred since the June budget and the measures that I am announcing today will provide much needed relief. But I have come to the view that reducing the complexity of business tax measures and removing the uncertainties still lingering would help businessmen concentrate more fully on managing their affairs in these difficult times. I am therefore announcing today several tax adjustments to ease the businessman's burden.

The Small Business Bond was introduced last year to assist eligible small businesses in financial difficulty. The program, which was due to expire on December 31, 1982, has proven to be effective and has been used extensively. I am pleased to announce that the progam is being extended for one more year to December 31, 1983.

The change in tax treatment of professionals' work-in-progress will not apply to professionals who are ineligible for the low small business tax rate or who would be ineligible if they were incorporated. This includes doctors, dentists, lawyers, accountants, veterinarians and chiropractors.

The government has proposed that the federal sales tax be moved from the manufacturers to the wholesale level as of January 1, 1983. This change would greatly improve the tax structure, and remove serious biases that work to the disadvantage of domestic manufacturers and in favour of imports. I have received representations from both small and large businesses on this issue. They have generally recognized the need to remove the biases in the current system, but they have taken the view that now is not the time for a changeover.

Some groups, notably a joint task force of business associations that I recently met with, have requested the opportunity to explore further whether a modified proposal could meet these objectives. Accordingly, I have instructed my officials to work with industry to explore possibilities in this regard. I invite the interested associations to designate their representatives as soon as possible.

As I noted previously, in the current economic environment I am receptive to the notion that any change, no matter how beneficial, imposes costs and uncertainties on businesses. I want to minimize such costs, while continuing the policy of making the structural changes in the tax system that are required. Consequently, I am also announcing that the date for implementing the proposal on the sales tax will be delayed until after the legislation has received Royal Assent and that, in any event, implementation of the new system will not commence before the middle of 1984. This will give adequate time for the Government and the private sector to consult further, for Parliament to review the legislation, and for taxpayers to gear up for the new system.

The November 1981 budget imposed a tax on dividend distributions by small business to correct a serious anomaly in the taxation of such firms and their shareholders. In my judgement the objective of the tax is sound and many have agreed with its purpose. However, the original proposal was unduly complex. It was also criticized as applying retroactively to dividends paid out of income that small firms had earned before the measure was introduced.

In order to resolve these concerns, I have concluded that the tax should apply only to dividends paid out of corporate income earned in taxation years starting after the end of 1982. Dividends paid out of business income will be considered to come first out of income earned after 1982. This change removes one of the features of the tax that small business and the tax community found objectionable. Together with other technical adjustments, it will simplify the tax quite significantly.

Before the November 1981 budget, tax on capital gains was deferred in various corporate reorganizations. That budget proposed to end these tax deferrals in certain circumstances. The application of the proposal has been deferred until 1983 pending consultation with a group of independent tax experts. The issue remains under study and it is my intention to publish a consultative document containing specific proposals.

However, I want to remove uncertainty for businesses which are currently in the process of, or are contemplating, reorganizations. I am thus announcing that the pre-budget rules on corporate reorganizations, with the exception of the changes contained in the June 28, 1982 Ways and Means motion, will continue to apply after the end of this year. As well, any new proposals arising from on-going studies and consultations will not apply to reorganizations that are substantially advanced on the date new proposals are announced.

I have one adjustment to announce concerning taxation of the investment income of individuals. My predecessor referred a proposal to restrict tax deductibility of interest expense to a committee of prominent tax professionals. That proposal would have limited tax deductions for investment interest expense to the amount of a person's investment income that was taxable in the year. I have received the report of the Committee. Their recommendation is not to proceed with the proposal and I accept it. However, in any move to eliminate tax on the inflation-related portion of capital gains or interest income, it may well be necessary to enact rules ensuring that taxpayers would not also be able to obtain a tax deduction for the inflation-related portion of borrowing costs they incur to make the investment. This matter will be further reviewed.

On April 21, my predecessor announced disbursement rules for private charitable foundations that met the objectives of both the foundations and the government. These rules require the distinction to be maintained between charitable foundations and charitable

organizations. In many cases this distinction is unnecessary. Accordingly, I am examining the possibility of applying the same rules to both charitable foundations and charitable organizations. I propose to make public later this fall draft legislation that would apply the rules proposed to both types of charities, and to delay passage of the legislation until consultations with interested parties are completed. In any event, the new rule would only apply in taxation years commencing after 1983. However, the special rules concerning non-qualified investments, as announced on April 21, will apply at that time to all charities.

## The Report of the Advisory Committee on Inflation and the Taxation of Personal Investment Incomes

Madam Speaker, I would like to comment briefly on the recent report of the Ministerial Advisory Committee on Inflation and the Taxation of Personal Investment Income, chaired by Mr. Pierre Lortie, the President of the Montreal Exchange. The Committee's report was released to the public on October 20. I wish to thank its members for the considerable and impressive work they have done on important tax issues. I have found the consultative process and the Report itself most useful.

The Committee has supported the general thrust of the government's proposals to base taxation of investment income on real ability to pay. It has stressed the paramount need to reduce inflation. It has recommended that the Registered Shareholder Investment Plan proposal to exempt the inflation portion of capital gains from taxation be proceeded with in a modified form. It has recommended against adopting a proposal to adjust for tax purposes the interest income of individuals on funds lent to farmers, small business, and homeowners.

Since the June budget, interest rates have declined by five percentage points and are now at levels comparable to what they were two years ago. As we persevere in our efforts to reduce inflation, they will go even lower. Moreover the federal government and many provinces have introduced assistance programs for homebuyers, mortgage renewers, small business and farmers. I have just announced additional support for housing. In the light of these facts, I accept the Committee's recommendation that the proposal for indexed term deposits and indexed loans not be proceeded with.

I do not need to be persuaded of the crucial importance of encouraging the revival and growth of equity markets in Canada. I therefore intend to proceed, as recommended by the Committee, with a Registered Shareholder Investment Plan under which tax will apply only to the real portion of capital gains on common stock of public companies. In my judgement, it is important to ensure that the details of the approach the government will put forward take into account the Committee's suggestions and not prejudice any possible move to adjust the taxation of business income for inflation. I also

believe it is desirable to work out the full details of this approach in the form of draft legislation available for public comment prior to implementation. It is my intention to table such draft legislation before the end of this year.

The Committee has recommended that a major study be undertaken to determine the desirability of adjusting the taxation of business income for inflation. I am well aware of the distortions and disincentives to investment that can arise when the tax system does not recognize that inflation affects the measurement of business income. I am therefore receptive to this recommendation and will consider how such a study could be conducted.

To sum up on tax issues, the overall effect of the changes I have just announced, exclusive of the Registered Shareholder Investment Plan, will be to reduce federal revenues by $45 million in the current fiscal year and by approximately $300 million on a full year basis. This financial impact is included in the fiscal statement I presented earlier. The revenue effect of the Registered Shareholder Investment Plan will depend on the exact details of its structure and on when it comes into effect.

I will be releasing soon the draft legislation on the taxation of investment income and life insurance. I plan to table in the first two weeks of December final legislation to implement the proposals from the November and June budgets, as revised today. The legislation has benefitted significantly from comments that have been made on the draft that was made public last June. I thank those who took time to send comments to me, my predecessor and my officials.

## CONCLUSION

Madam Speaker, I did not attempt today to paint a rosy picture for Canadians. The world recession has severely weakened our economy. Recovery will take time, and unemployment will not come down overnight.

But if the best is by no means assured, neither are we inevitably fated for the worst, as the Prime Minister has reminded us so often, quoting his favourite Portuguese proverb.

The strong support that individual Canadians, private sector organizations and most provinces have given to the 6 and 5 program introduced by my predecessor last June has significantly improved our economic prospects. As a result, inflation has abated and interest rates have come down over the last four months.

These hopeful trends point to an early recovery. The measures introduced in the June budget and those I have just outlined will sustain activity and help those among us hardest hit by the recession until recovery makes it possible for them to find jobs.

Last week the Prime Minister formally committed the government to maintain and improve the social programs put in place over the past 40 years to counter the effects of unemployment, poverty, bad luck and economic disruption.

The measures I have just announced bear witness to the fact that this was not empty rhetoric. Expenditure reallocations will enable us to devote over a billion dollars to employment support, housing assistance and modernization of our railway system without adding to the deficit.

Moreover, the government will absorb next year half of the additional cost of unemployment insurance to make sure that workers and employers are not saddled with an intolerable burden.

The tax changes I have proposed will likewise ease the burden of taxpayers and make it possible for them to devote their full attention to essential tasks: to produce more efficiently and more cheaply, to improve their products and techniques of production, to fully exploit markets at home and abroad - in short, to make the Canadian economy more competitive and better able to prosper as world growth picks up.

This is the challenge we will have to meet together, and it will remain my first priority as Minister of Finance.

Comparison Between June 1982 Budget and Current Forecast
Government of Canada
Summary Statement of Transactions

| | June 1982 Budget | | Current Forecast | |
|---|---|---|---|---|
| | 1981-82 | 1982-83 | 1981-82 | 1982-83 |
| | (Millions of dollars) | | | |
| Budgetary Transactions | | | | |
| Budgetary Revenue | 53,765 | 58,550 | 54,068 | 55,660 |
| Budgetary Expenditure | 66,700 | 78,100 | 67,674 | 79,210 |
| Surplus or Deficit | -12,935 | -19,550 | -13,606 | -23,550 |
| Non-Budgetary Transactions | | | | |
| Loans, Investments and Advances | -1,335 | -700 | -1,239 | -740 |
| Specified Purpose Accounts | 3,285 | 1,065 | 4,345 | 405 |
| Other Transactions | 2,645 | 2,085 | 2,169 | 1,685 |
| Net Source or Requirement | 4,595 | 2,450 | 5,275 | 1,350 |
| Financial Requirements (Excl. Foreign Exchange) | -8,340 | -17,100 | -8,331 | -22,200 |

| | | | | |
|---|---|---|---|---|
| Total Outlays | 68,035 | 78,800 | 68,913 | 79,950 |
| Per cent Growth | 16.1 | 15.8 | 17.6 | 16.0 |
| Per cent of GNP | 20.5 | 22.0 | 20.8 | 22.9 |
| Program Outlays | 52,965 | 60,935 | 53,745 | 63,025 |
| Per cent Growth | 10.6 | 15.0 | 12.2 | 17.3 |
| Per cent of GNP | 16.0 | 17.0 | 16.2 | 18.0 |
| Budgetary Revenue | 53,765 | 58,550 | 54,068 | 55,660 |
| Per cent Growth | 18.4 | 8.9 | 19.1 | 2.9 |
| Per cent of GNP | 16.2 | 16.3 | 16.3 | 15.9 |
| Budgetary Deficit | -12,935 | -19,550 | 13,606 | -23,550 |
| Per cent of GNP | -3.9 | -5.5 | -4.1 | -6.7 |
| Financial Requirements (Excl. Foreign Exchange) | -8,340 | -17,100 | -8,331 | -22,200 |
| Per cent of GNP | -2.5 | -4.8 | -2.5 | -6.3 |
| GNP (Billions of Dollars) | 331.3 | 358.9 | 331.3 | 349.9 |

Government of Canada
Budgetary Revenue
Public Accounts Basis[1]

| | 1981-82 | 1982-83 |
|---|---|---|
| | (Millions of dollars) | |
| Personal income tax | 24,046 | 26,790 |
| Corporate income tax | 8,118 | 6,645 |
| Petroleum and gas revenue tax and incremental oil revenue tax | 864 | 1,930 |
| Non-resident tax | 1,018 | 1,040 |
| Sales tax | 6,185 | 6,250 |
| Customs import duties | 3,439 | 2,975 |
| Excise duties | 1,175 | 1,270 |
| Other excise taxes | 564 | 650 |
| Gasoline excise tax | 436 | 430 |
| Oil export charge | 519 | 325 |
| Natural gas and gas liquids tax | 998 | 1,220 |
| Net petroleum compensation revenue | 0 | 215 |
| Special petroleum compensation charge | 473 | 0 |
| Miscellaneous tax | 120 | 130 |
| Total tax revenues | 47,955 | 49,870 |
| Return on investments | 5,095 | 5,010 |
| Other non-tax revenues | 1,018 | 780 |
| Total non-tax revenues | 6,113 | 5,790 |
| Total budgetary revenues | 54,068 | 55,660 |

(1) The year 1981-82 has been adjusted to exclude postal revenue to be comparable with following years. The 1981-82 Public Accounts includes postal revenue up to October 16, 1981 which is the date that Canada Post became a Crown corporation.

Government of Canada
Revenue and Expenditure
National Accounts Basis

| | 1981-82 | 1982-83 |
|---|---|---|
| | (Millions of dollars) | |
| I. Revenues | | |
| Direct taxes, persons | 30,473 | 33,855 |
| Direct taxes, corporations | 7,749 | 7,855 |
| Non-resident tax | 1,163 | 1,160 |
| Indirect taxes | 19,209 | 17,945 |
| Other current transfers from persons | 24 | 25 |
| Investment income | 5,565 | 6,270 |
| Capital consumption allowances | 956 | 1,075 |
| Total Revenue | 65,139 | 68,185 |
| II. Expenditure | | |
| Current goods and services | 16,898 | 19,000 |
| Transfers to persons | 19,891 | 26,630 |
| Interest on the public debt | 14,368 | 16,715 |
| Transfers to non-residents | 939 | 1,070 |
| Subsidies | 6,386 | 6,070 |
| Capital assistance | 826 | 3,940 |
| Transfers to other levels of government | 14,521 | 15,490 |
| Gross capital formation | 1,335 | 1,650 |
| Total expenditure | 75,164 | 90,565 |
| Deficit | -10,025 | -22,380 |

Summary of Current Allocations for Employment Creation

| Program | 1982-83 |
|---|---|
| | ($ millions) |
| Direct Job Creation: Major Programs | |
| CCDP | 194 |
| LEAP | 61 |
| PED | 55 |
| Other | 40 |
| SUB-TOTAL | 350 |
| U.I. Work Sharing | 200 |
| U.I. Job Creation | 85 |
| Summer Youth Employment | 120 |
| Supplementary Employment Measures | |
| Construction-related Programs | 75 |
| Economic Development Incentives | 100 |
| Housing | |
| Home Renovation Plan | 55 |
| New Home Construction and First Time Homebuyers | 275 |
| Canada Rental Supply Plan | 150 |
| TOTAL | 1,410 |



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